

MEMORANDUM

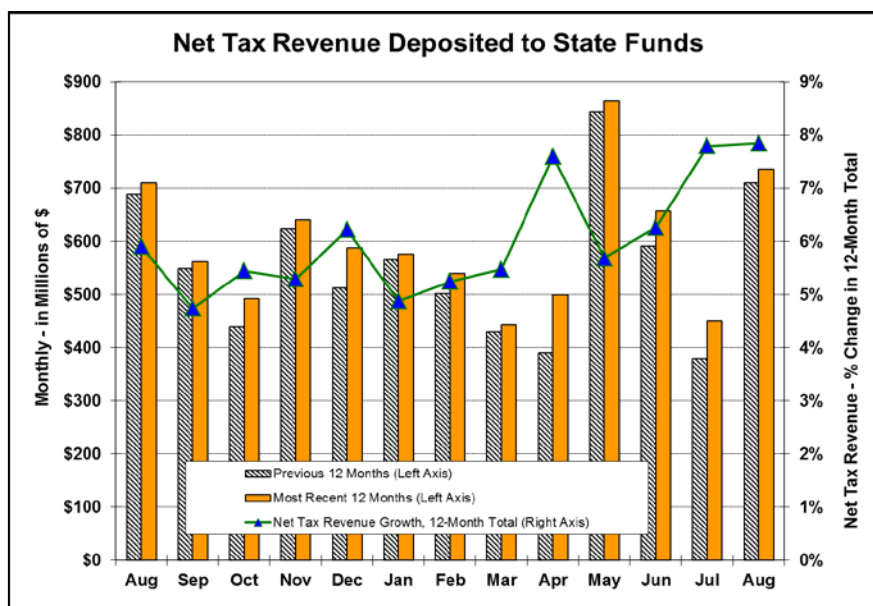
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: September 24, 2012

Twelve-month Total Net Tax Receipts Through August 31, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending August 2012 with comparisons to the previous twelve months. August 2011 to August 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Due to deposit timing issues positively impacting July and negatively impacting August, the 3.6% August growth rate is understated and growth across the two months was 8.9%. At 7.8%, the annual growth rate is now higher than any time since June 2007 (8.5%). This past year, the weakest revenue sources have been fuel tax and franchise (bank) tax revenue. Real estate

transfer tax receipts, an indicator of the dollar volume of real estate transactions, increased 20.7% over the past 12 months.

Month of August Comparison

August net tax receipts totaled \$735.6 million, an increase of \$25.9 million (3.6%) compared to August 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$12.0 million, 4.3%) – Gross income tax deposits increased \$13.9 million in August while individual income tax refunds issued increased \$1.9 million.
- Sales/Use Tax (positive \$3.2 million, 1.1%)
 - Road Use Tax Fund use tax (fee for new vehicle registration) increased \$3.5 million in August. Monthly comparisons have shown increases in 16 of the past 18 months, with ten of the months posting a percentage increase of 9.3% or higher.
 - Gross General Fund sales/use tax receipts increased \$0.6 million (0.2%), with deposit timing issues providing a significant drag on August results. Regular sales tax refunds increased \$0.2 million and school infrastructure transfers out increased \$0.5 million.
- Corporate Income Tax (positive \$6.2 million, 121.6%) – Deposits of corporate income tax receipts increased \$2.0 million (14.5%) in August, while corporate tax refunds decreased \$4.2 million.
- Fuel Tax (negative \$1.5 million, - 3.9%) – Gross fuel tax deposits decreased \$3.9 million for the month while tax refunds decreased \$2.4 million.
- Cigarette and Tobacco Taxes (negative \$0.9 million, - 4.6%)
- Gambling Tax (positive \$6.0 million, 28.3%) - Weekly gambling tax deposits are usually made each Thursday, and August 2012 had five Thursdays. The five Thursday month last year was September, so September receipts should show an offsetting decrease.
- Insurance Premium Tax (positive \$0.7 million, 1.5%)

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending August 2012, net revenue from all taxes deposited to State funds totaled \$7.046 billion, an increase of \$512.5 million (7.8%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$166.8 million, 5.8%) – Individual income tax continues to post good year-over-year annual growth numbers and the income tax withholding component has shown improvement recently with growth equal to 5.5% over the most recent three months.
- Sales/Use Tax (positive \$127.6 million, 5.7%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).
- Corporate Income Tax (positive \$176.3 million, 70.6%) – Corporate income tax revenue has shown significant strength for more than a year.
- Fuel Tax (negative \$7.5 million, - 1.7%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 1.6% while taxable diesel sales decreased 0.5%. Taxable diesel sales over the

most recent 12-month period are 4.2% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) have, for the first time since December 2010, dipped below the prerecession peak (August 2007) for all taxed gallons sold.

- Gambling Tax (positive \$22.4 million, 8.0%) – According to Racing and Gaming Commission statistics, six of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending August 2012. The combined AGR growth for the 18 facilities was positive 5.8% over the previous 12-month period, with the new Lyon County casino contributing 53.9% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.463 billion.
- Real Estate Transfer Tax (positive \$2.8 million, 20.7%) – Annual real estate transfer tax receipts peaked in April 2006 at \$18.8 million and bottomed in May 2010 at \$12.9 million. Receipts are now 13.3% below the previous peak.
- Cigarette and Tobacco Tax (positive \$1.8 million, 0.8%)

Tax Spotlight – Corporate Income Tax

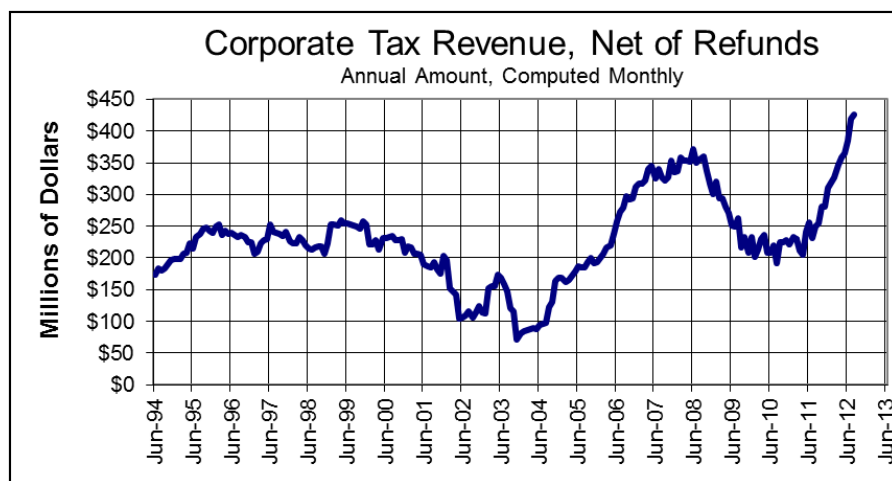
Corporate income is taxed under the authority of [Iowa Code Chapter 422](#), Division III. The tax is imposed on the net income of corporations doing business in Iowa or receiving income from property located in Iowa. Taxation of corporate income by the State of Iowa is based on the share of total company sales occurring within Iowa (single factor formula). Corporate income tax rates are applied as follows:

- 6.0% on the first \$25,000 of net income
- 8.0% on the next \$75,000
- 10.0% on the next \$150,000
- 12.0% on amounts above \$250,000

An alternative minimum tax may be imposed at an effective rate of 7.2% if it exceeds the corporation's regular tax liability. Iowa is similar to most states using the federal corporate taxable income of a corporation as the basis for Iowa corporate income tax. Iowa allows for the deduction of 50.0% of federal corporate income tax paid prior to calculating State corporate income tax liability.

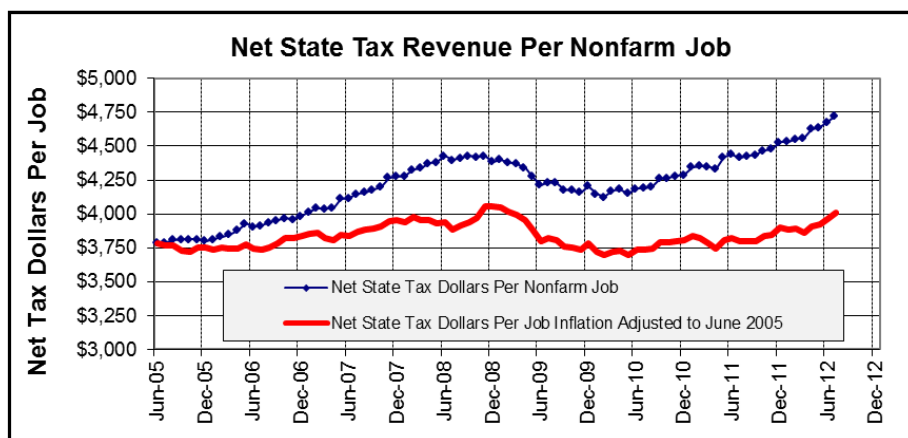
The Iowa corporate income tax was first imposed in 1934 at a single rate of 2.0% with the passage of HF 1 (Income, Corporation, and Sales Tax Act). The rate remained at 2.0% until 1955 when it was increased to 3.0%, decreased to 2.0% in 1957, increased again to 3.0% in 1959, and increased to 4.0% in 1965. With the passage of HF 702 in 1967, the corporate income tax rate was changed from a single rate to varying rates at different income levels starting at 4.0% on the first \$25,000, 6.0% on the next \$75,000, and 8.0% for amounts above \$100,000. In 1971, HF 654 increased the rates 2.0 percentage points (6.0%, 8.0%, and 10.0%). The current corporate income tax rates and income levels were approved in HF 2171 (Taxation Act of 1982).

Corporate income tax returns are filed by the last day of the fourth month following the end of the corporation's tax year. Cooperatives (as defined by the Internal Revenue Code) are to file a return by the 15th of the ninth month after the end of the cooperative's tax year. Nonprofit corporation returns are due by the 15th of the fifth month after the end of the nonprofit corporation's tax year. Most corporations are required to make estimated tax payments quarterly. All corporate income tax revenues are deposited in the State General Fund.



Tax Revenue and Employment

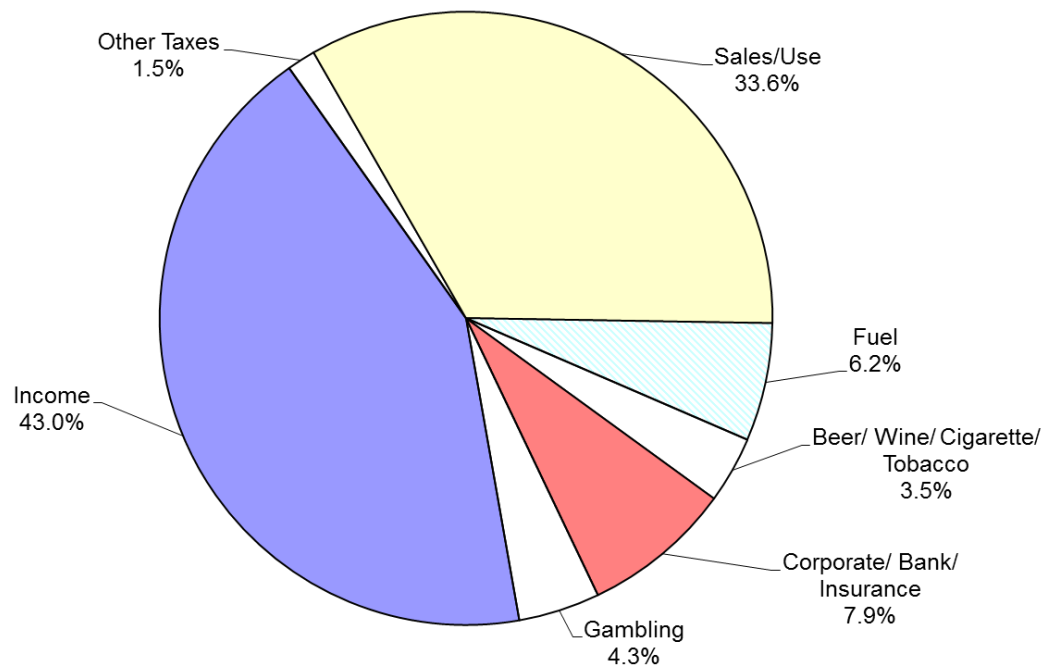
The average reading for Iowa nonfarm employment over the 12 months ending July 2012 is 1,486,600 and net State tax receipts over the same 12 months totaled \$7.020 billion, or \$4,722 per nonfarm job. This is \$937 (24.8%) higher than the per-job average for the 12 months ending June 2005. Over that same time period, inflation (CPI-U) increased 17.8%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 1.0% per year since June 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



Net State Tax Revenue - Twelve Months Ending August 2012

Net Revenue = \$7.046 Billion

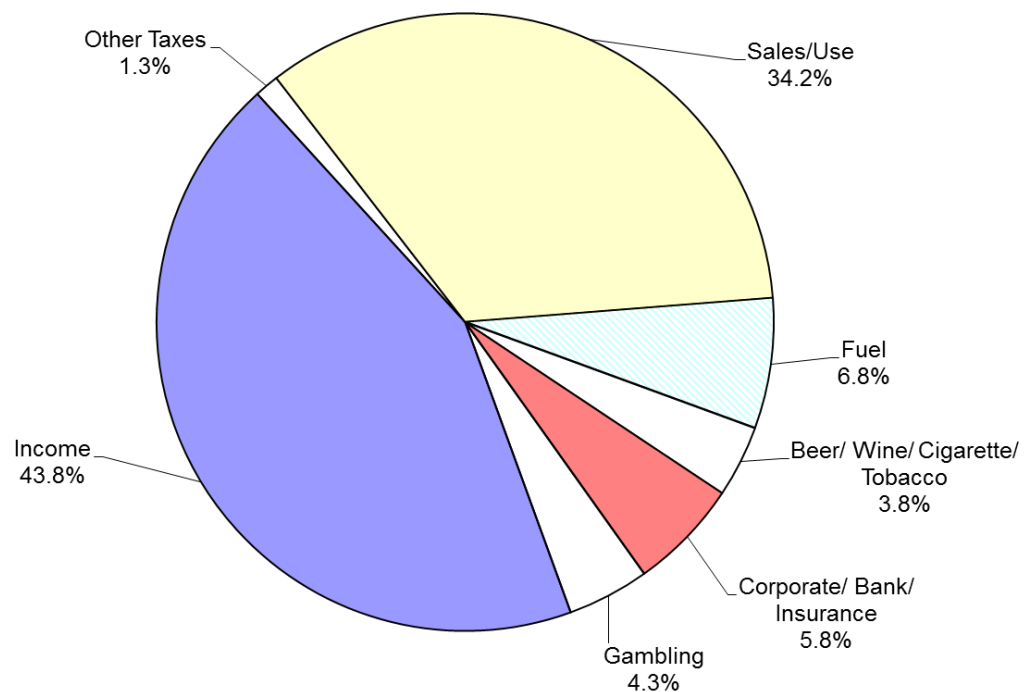
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending August 2011

Net Revenue = \$6.534 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of August 2011	Month of August 2012	August \$ Change	August % Change
Banking	\$ 35.5	\$ 30.1	\$ - 5.4	-15.2%	\$ 0.6	\$ 0.2	\$ - 0.4	-66.7%
Beer & Wine	21.4	21.8	0.4	1.9%	1.8	1.8	0.0	0.0%
Cigarette & Tobacco	224.3	226.1	1.8	0.8%	19.5	18.6	- 0.9	-4.6%
Corporate Income	249.7	426.0	176.3	70.6%	5.1	11.3	6.2	121.6%
Fuel	445.9	438.4	- 7.5	-1.7%	38.5	37.0	- 1.5	-3.9%
Gambling	280.7	303.1	22.4	8.0%	21.2	27.2	6.0	28.3%
Individual Income	2,861.4	3,028.2	166.8	5.8%	279.6	291.6	12.0	4.3%
Inheritance	64.5	78.7	14.2	22.0%	7.0	8.3	1.3	18.6%
Insurance	94.4	102.0	7.6	8.1%	45.6	46.3	0.7	1.5%
Other Taxes	5.6	11.1	5.5	98.2%	1.5	0.6	- 0.9	-60.0%
Real Estate Transfer	13.5	16.3	2.8	20.7%	1.2	1.4	0.2	16.7%
Sales/Use	2,236.7	2,364.3	127.6	5.7%	288.1	291.3	3.2	1.1%
Total Net Taxes	\$ 6,533.6	\$ 7,046.1	\$ 512.5	7.8%	\$ 709.7	\$ 735.6	\$ 25.9	3.6%
Gross Tax & Refunds								
Gross Tax	\$ 7,799.8	\$ 8,330.5	\$ 530.7	6.8%	\$ 776.3	\$ 798.0	\$ 21.7	2.8%
Tax Refunds	\$ - 1,266.3	\$ - 1,284.4	\$ - 18.1	1.4%	\$ - 66.6	\$ - 62.4	\$ 4.2	-6.3%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,533.6	\$ 5,928.7	\$ 395.1	7.1%	\$ 604.4	\$ 623.4	\$ 19.0	3.1%
Road Use Tax Fund	\$ 731.9	\$ 750.1	\$ 18.2	2.5%	\$ 62.6	\$ 64.7	\$ 2.1	3.4%
Non-GF Gambling	\$ 212.7	\$ 234.3	\$ 21.6	10.2%	\$ 21.0	\$ 26.9	\$ 5.9	28.1%
Other State Funds	\$ 55.3	\$ 132.9	\$ 77.6	140.3%	\$ 21.7	\$ 20.6	\$ - 1.1	-5.1%
Local Option Taxes *	\$ 819.5	\$ 859.3	\$ 39.8	4.9%	\$ 70.7	\$ 72.6	\$ 1.9	2.7%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.